

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Straits Area Narcotics Enforcement	County Emmet
Fiscal Year End 9/30/04	Opinion Date 11/30/05	Date Audit Report Submitted to State 9/21/06	

We affirm that:

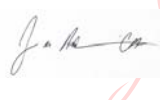
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson & Decker, P.C.		Telephone Number 989-275-8831		
Street Address P.O. Box 746		City Roscommon	State MI	Zip 48653
Authorizing CPA Signature 		Printed Name James M. Anderson, CPA		License Number 1101017419

Digitally signed by James M. Anderson, CPA  
DN: cn=James M. Anderson, CPA, c=US, o=James M. Anderson, P.C., email=jma@m33access.com  
Date: 2006.09.22 10:25:15 -04'00'

**STRAITS AREA NARCOTICS ENFORCEMENT**  
**ANNUAL FINANCIAL REPORT**  
**YEAR ENDED SEPTEMBER 30, 2004**

## STRAITS AREA NARCOTICS ENFORCEMENT

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Anderson & Decker, P.C.

**CERTIFIED PUBLIC ACCOUNTANTS**

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(989) 275-8831

**INDEPENDENT AUDITORS' REPORT**

November 30, 2005

Executive Board  
Straits Area Narcotics Enforcement  
1200 M-119  
Petoskey, Michigan 49770

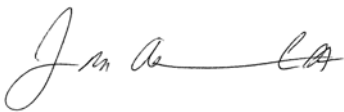
We have audited the accompanying financial statements of Straits Area Narcotics Enforcement as of and for the year ended December 31, 2004. These financial statements are the responsibility of the S.A.N.E.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of S.A.N.E. as of December 31, 2004 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3-6 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise S.A.N.E.'s basic financial statements. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of S.A.N.E. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

S.A.N.E.  
MANAGEMENT'S DISCUSSION & ANALYSIS  
DECEMBER 31, 2004

***Using this Annual Report***

Our discussion and analysis of S.A.N.E.'s financial performance provides an overview of the Unit's financial activities for the fiscal year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Unit and present a longer-term view of the Unit's finances.

***Overview of the Financial Statements***

This discussion and analysis is intended to serve as an introduction to S.A.N.E.'s basic financial statements. These statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

***Reporting S.A.N.E. as a Whole***

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of S.A.N.E.'s finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of S.A.N.E.'s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of S.A.N.E. is improving or deteriorating.

The *Statement of Activities* presents information showing how S.A.N.E.'s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund Financial Statements.** A fund is a grouping of related accounts and is used to maintain control over resources that have been segregated for specific activities or objectives. S.A.N.E., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. S.A.N.E. maintains one governmental fund and one fiduciary fund.

*Governmental Fund.* All of the unit's basic services are reported in the governmental fund, which focus on how money flows into and out of this fund and the balance left at year-end that is available for spending. This fund is reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statement provides a detailed short-term view of S.A.N.E.'s general governmental operations and the basic services it provides.

S.A.N.E.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2004

*Fiduciary Fund.* The Fiduciary fund is used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the unit's own programs. S.A.N.E. uses a fiduciary fund to account for non-adjudicated funds held.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The statements mentioned above, report the Unit's net assets and how they have changed. The reader can think of the Unit's net assets (the difference between assets and liabilities) as one way to measure the Unit's financial health or financial position. Over time, increases or decreases in the Unit's net assets are one indicator of whether its financial health is improving or deteriorating, respectively.

***Financial Analysis of S.A.N.E. as a Whole***

S.A.N.E.'s net assets decreased approximately 64%, or \$151,669, from \$238,042 to \$86,373 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position decreased in 2004. The unrestricted net assets decreased by \$153,779. The primary reason for the decline was the decrease of \$45,032 in revenues in 2004 in addition to a total increase in expenses of \$85,778. Most of this can be attributed to the reduction of the federal grant with a greater match requirement of the local units.

The net assets as of the year ended December 31, 2004, are as follows:

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
Current Assets	\$ 220,173	\$ 94,508	\$(125,665)	(57.08)
Capital Assets - Net	<u>83,200</u>	<u>85,310</u>	<u>2,110</u>	<u>2.53</u>
Total Assets	303,373	179,818	(123,555)	(40.73)
Current Liabilities	<u>65,331</u>	<u>93,445</u>	<u>28,114</u>	<u>43.03</u>
Total Liabilities	<u>65,331</u>	<u>93,445</u>	<u>28,114</u>	<u>43.03</u>
Net Assets				
Invested in Capital Assets	83,200	85,310	2,110	2.53
Unrestricted	<u>154,842</u>	<u>1,063</u>	<u>(153,779)</u>	<u>(99.31)</u>
Total Net Assets	<u>\$ 238,042</u>	<u>\$ 86,373</u>	<u>\$(151,669)</u>	<u>(63.72)</u>

S.A.N.E.  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2004

Changes in Net Assets

	<u>2003</u>	<u>2004</u>	<u>Variance</u>	<u>%</u>
General Revenues:				
Federal Grant	\$ 274,726	\$ 232,212	\$ (42,514)	(15.47)
MSP reimbursement	27,382	28,851	1,469	5.36
Forfeitures and restitution	31,982	54,483	22,501	70.35
County and local contributions	91,500	63,000	(28,500)	(31.15)
Interest and other	<u>2,362</u>	<u>4,374</u>	<u>2,012</u>	<u>85.18</u>
Total Revenue	<u>427,952</u>	<u>382,920</u>	<u>(45,032)</u>	<u>(10.52)</u>
Operating Expense				
Wages and fringes	27,661	30,092	2,431	8.79
Grant matching	326,510	392,376	65,866	20.17
Investigative expenditures	19,566	22,288	2,722	13.91
Other	<u>75,074</u>	<u>89,833</u>	<u>14,759</u>	<u>19.66</u>
Total Operating Expense	<u>448,811</u>	<u>534,589</u>	<u>85,778</u>	<u>19.11</u>
Income (Loss)	(20,859)	(151,669)	(130,810)	(627.11)
Beginning Net Assets	<u>258,901</u>	<u>238,042</u>	<u>(20,859)</u>	<u>8.06</u>
Ending Net Assets	<u>\$ 238,042</u>	<u>\$ 86,373</u>	<u>\$ (151,669)</u>	<u>(63.72)</u>

***Capital Asset and Debt Administration***

At December 31, 2004, S.A.N.E. had \$110,031 invested in capital assets before depreciation as follows:

	<u>2003</u>	<u>2004</u>	<u>Total Percentage Change 2004</u>
Capital Assets Not Being Depreciated			
Land	\$ -0-	\$ -0-	0.00
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Equipment	-0-	2,222	100.00
Buildings	<u>104,000</u>	<u>107,809</u>	<u>3.66</u>
Subtotal	<u>104,000</u>	<u>110,031</u>	<u>5.80</u>
Total Capital Assets	<u>104,000</u>	<u>110,031</u>	<u>5.80</u>
Total Accumulated Depreciation	<u>20,800</u>	<u>24,721</u>	<u>18.85</u>
Total Net Capital Assets	<u>\$ 83,200</u>	<u>\$ 85,310</u>	<u>2.54</u>

Please refer to the notes of the financial statements for more detailed information.



S.A.N.E.  
MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)  
DECEMBER 31, 2004

**Synopsis**

The Straits Area Narcotics Enforcement (S.A.N.E.) is a multi-jurisdictional law enforcement task force. The team has police officers assigned from the Michigan State Police and several County Sheriff offices. Financial support comes from governmental entities that contribute cash as well as money generated via the narcotics forfeiture act.

**Financial History**

S.A.N.E. currently has assets of approximately \$179,818 with approximately \$14,737 of amounts due from other governmental units.

During the years 1999-2003, S.A.N.E. generated an average income of \$250,191 per year. S.A.N.E.'s average operating cost during the same time period was \$278,473.

<u>Year</u>	<u>Income</u>	<u>Operating Costs</u>
1999	\$ 143,000	\$ 189,899
2000	\$ 263,284	\$ 291,594
2001	\$ 166,627	\$ 233,838
2002	\$ 250,094	\$ 231,692
2003	\$ 427,952	\$ 445,344

This results in an average net loss of \$28,282 per year.

**Economic Factors/Budget Forecast**

S.A.N.E. historically has not been able to support itself on forfeiture funds and relies on public contributions for approximately 80% of its operation costs. These funds had been received from the 6 counties and other municipalities that participated with S.A.N.E. Without the participation of these units of government, S.A.N.E. would not be able to function. Management intends to continue to work with the units of government to ensure the ongoing fight against illegal substances in our communities.

**Contacting Team Management**

This analysis is intended to give a broad overview of the financial status of S.A.N.E. If you have questions about the report or need additional information, please contact the S.A.N.E. office.

D/Lt. Ken Mills, Unit Commander  
Straits Area Narcotics Enforcement

S.A.N.E.  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2004

ASSETS

Cash and equivalents	\$ 79,771
Due from other governmental units	14,737
Capital Assets - Net	<u>85,310</u>
Total Assets	<u>179,818</u>

LIABILITIES

Liabilities	
Accounts payable	16,558
Due to other governments	75,134
Accrued liabilities	<u>1,753</u>
Total Liabilities	<u>93,445</u>

NET ASSETS

Invested in capital assets	85,310
Unrestricted	<u>1,063</u>
Total Net Assets	<u><u>\$ 86,373</u></u>

The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Clerical wages	\$ 27,954
Payroll taxes	2,138
Office supplies	4,415
Postage	800
Payments to other units of government	392,376
Travel & lodging	899
Telephone & communications	10,230
Utilities	2,324
Insurance	1,629
Contract services	1,323
Evidence and informants	22,288
Forfeiture costs	2,724
Vehicle lease & cost	57,264
Building repair and maintenance	3,104
Officer training	1,200
Depreciation	<u>3,921</u>
Total Program Expenses	<u>534,589</u>
General Revenues	
Federal Grant	232,212
Michigan State Police - reimbursements	28,851
Forfeitures and restitution	54,483
County and local contributions	63,000
Interest and other income	<u>4,374</u>
Total General Revenues	<u>382,920</u>
Change in Net Assets	(151,669)
Net Assets, beginning of year	<u>238,042</u>
Net Assets, end of year	<u><u>\$ 86,373</u></u>

The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
BALANCE SHEET  
DECEMBER 31, 2004

ASSETS

Cash on hand	\$ 10,000
Cash in the bank	69,771
Due from other governmental units	<u>14,737</u>
TOTAL ASSETS	<u>\$ 94,508</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 16,558
Due to other governmental units	75,134
Accrued liabilities	<u>1,753</u>
TOTAL LIABILITIES	<u>93,445</u>

Fund Equity:

Fund balance	<u>1,063</u>
TOTAL FUND EQUITY	<u>1,063</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 94,508</u>

The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2004

Total governmental fund balance	\$ 1,063
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>85,310</u>
Net assets of governmental activities	<u><u>\$ 86,373</u></u>

The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2004

REVENUES

Federal Grant	\$ 232,212
Michigan State Police - reimbursements	28,851
Forfeitures and restitution	54,483
County and local contributions	63,000
Interest and other income	<u>4,374</u>
Total Revenues	<u>382,920</u>

EXPENDITURES

Clerical wages	27,954
Payroll taxes	2,138
Office supplies	4,415
Postage	800
Payments to other units of government	392,376
Travel & lodging	899
Telephone & communications	10,230
Utilities	2,324
Insurance	1,629
Contract services	1,323
Forfeiture costs	2,724
Evidence and informants	22,288
Vehicle lease & costs	57,264
Building repair and maintenance	3,104
Officer training	1,200
Capital outlay	<u>6,031</u>

Total Expenditures	<u>536,699</u>
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EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(153,779)
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FUND BALANCE, beginning of year	<u>154,842</u>
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FUND BALANCE, end of year	<u><u>\$ 1,063</u></u>
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The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in fund balance-total governmental funds	\$(153,779)
Amounts reported for governmental activities in the statement are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	<u>2,110</u>
Change in net assets of governmental activities.	<u><u>\$(151,669)</u></u>

The accompanying notes are an integral part of these financial statements.

S.A.N.E.  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
NON-ADJUDICATED FIDUCIARY FUND  
DECEMBER 31, 2004

ASSETS	
Cash on hand	\$ 2,690
Cash in bank	<u>1,580</u>
Total Assets	<u>4,270</u>
LIABILITIES	
Seized assets pending judgement	<u>4,270</u>
Total Liabilities	<u>4,270</u>
NET ASSETS	
Net Assets Held in Trust for Other Governments	<u><u>\$ -0-</u></u>

The accompanying notes are an integral part of these financial statements.



S.A.N.E.  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS  
NON-ADJUDICATED FIDUCIARY FUND  
DECEMBER 31, 2004

ADDITIONS

Seizures	\$ 11,424
Bond forfeitures	2,022
Interest	<u>289</u>
Total Additions	<u>13,735</u>

DEDUCTIONS

Payments to S.A.N.E.	9,465
Payments pending judgement	<u>4,270</u>
Total Deductions	<u>13,735</u>

Change in Net Assets	<u>-0-</u>
Net Assets Held in Trust for Other Governments - January 1	<u>-0-</u>
Net Assets Held in Trust for Other Governments - December 31	<u><u>\$ -0-</u></u>

The accompanying notes are an integral part of these financial statements.

STRAITS AREA NARCOTICS ENFORCEMENT  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Straits Area Narcotics Enforcement conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies:

DEFINING THE REPORTING ENTITY

S.A.N.E. (Straits Area Narcotics Enforcement) is operated under an interagency agreement which includes Charlevoix, Cheboygan, Chippewa, Emmet, Mackinac and Otsego Counties, the Sault Tribe, the Bay Mills Tribe and the Michigan State Police. The purpose of this alliance is to establish a cooperative force combining their investigative services, manpower and/or resources for enforcement of Michigan controlled substances laws and related criminal activity. The criteria established for determining the reporting entity include oversight responsibility, scope of public service, and financing relationships. Only the activities of S.A.N.E. are included in these financial statements.

*Government-Wide Financial Statements* - The reporting model includes financial statements prepared using full accrual accounting for all S.A.N.E.'s activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

*Statement of Net Assets* - The statement of net assets is designed to display the financial position of the Primary Government (governmental and business-type activities) and the total of its discretely presented component parts. S.A.N.E. reports capital assets in the government-wide statement of net assets and reports depreciation expense - the cost of "using up" capital assets - in the statement of activities. The net assets of S.A.N.E. are broken down into three categories-1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

*Statement of Activities* - The statement of activities reports expenses and revenues in a format that focuses on the cost of each of S.A.N.E.'s functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, S.A.N.E. has recorded capital assets and certain other long-term assets and liabilities in the statement of net assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities.

DONATED SERVICES

Personnel for the operations of S.A.N.E. are provided by the law enforcement agencies whose officers are working with S.A.N.E. No expense or revenue has been recorded for these donated services in the books and records of S.A.N.E.

STRAITS AREA NARCOTICS ENFORCEMENT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

BASIS OF PRESENTATION - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These statements report financial information on S.A.N.E. as a whole, excluding fiduciary activities for non-adjudicated funds.

The Statement of Net assets presents S.A.N.E.'s assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by general revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

BASIS OF PRESENTATION - FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund) and the fiduciary fund. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

GENERAL FUND

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from forfeitures and restitution, interest on savings accounts and miscellaneous income.

FIDUCIARY FUNDS

These funds are used to account for assets held in trust or as an agent for others. Non-adjudicated activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

STRAITS AREA NARCOTICS ENFORCEMENT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING - FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the unit considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

CAPITAL ASSETS AND DEPRECIATION

The S.A.N.E.'s property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The unit generally capitalizes assets with historical cost of normal maintenance more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Computers and peripherals	1-3 years
Office furniture	5-20 years
Vehicles	4-7 years
Buildings and improvements	25-40 years
Land improvements	10-20 years
Machinery and equipment	5-10 years

Land and construction in progress are not depreciated.

STRAITS AREA NARCOTICS ENFORCEMENT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEPOSITS AND INVESTMENTS

The S.A.N.E.'s cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from date of acquisition.

State statutes authorize a governmental unit other than S.A.N.E. to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The governmental unit is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

NOTE B - CASH AND INVESTMENTS

S.A.N.E.'s adjudicated and unadjudicated checking accounts were maintained by the County of Emmet for the fiscal year ending December 31, 2004. These bank accounts had a combined book balance of \$69,771 as of December 31, 2004. The combined bank balance as of December 31, 2004 is unknown.

	Carrying Amount
Insured (FDIC)	\$ 69,771
Uninsured and Uncollateralized	<u>-0-</u>
Total Deposits	69,771
Cash on hand	<u>10,000</u>
Total Cash and Equivalents	<u>\$ 79,771</u>

Michigan law prohibits the collateralization of public funds.

STRAITS AREA NARCOTICS ENFORCEMENT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2004

NOTE C - DUE TO OTHER UNITS OF GOVERNMENT

As of December 31, 2004 S.A.N.E. owed \$15,755 to Charlevoix County, \$10,588 to Cheboygan County, \$8,721 to Chippewa County, \$9,749 to the City of Sault Ste. Marie and \$30,321 to the State of Michigan totaling \$75,134.

NOTE D - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets:

	Balance 01/01/04	Additions	Deletions	Balance 12/31/04
Capital Assets Being Depreciated:				
Equipment	\$ -0-	\$ 2,222	\$ -0-	\$ 2,222
Buildings	104,000	3,809	-0-	107,809
Total	104,000	6,031	-0-	110,031
Less Accumulated Depreciation:				
Equipment	-0-	407	-0-	407
Buildings	20,800	3,514	-0-	24,314
Total	20,800	3,921	-0-	24,721
Total Net Capital Assets	<u>\$ 83,200</u>	<u>\$ 2,110</u>	<u>\$ -0-</u>	<u>\$ 85,310</u>

NOTE E - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended December 31, 2004 S.A.N.E. incurred expenditures in excess of the amounts appropriated in the General Fund as follows:

Fund	Budgeted	Actual	Variance
General Fund:			
Office supplies	\$ 3,280	\$ 4,415	\$ (1,135)
Postage	675	800	(125)
Payments to other governments	375,762	392,376	(16,614)
Utilities	2,295	2,324	(29)
Insurance	1,560	1,629	(69)
Forfeiture costs	1,460	2,724	(1,264)
Evidence and informants	12,980	22,288	(9,308)
Vehicle lease and costs	23,951	57,264	(33,313)
Building repair & maintenance	2,990	3,104	(114)
Capital outlay	5,630	6,031	(401)

## **SUPPLEMENTAL INFORMATION**

S.A.N.E.  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Federal grants	\$ 263,000	\$ 263,000	\$ 232,212	\$ (30,788)
Michigan State Police				
- reimbursements	26,244	26,244	28,851	2,607
Forfeitures and restitution	3,372	3,372	54,483	51,111
County and local contributions	240,213	240,213	63,000	(177,213)
Interest and other income	900	900	4,374	3,474
Total Revenues	<u>533,729</u>	<u>533,729</u>	<u>382,920</u>	<u>(150,809)</u>
EXPENDITURES				
Clerical wages	28,660	28,660	27,954	706
Payroll Taxes	2,192	2,192	2,138	54
Office supplies	3,280	3,280	4,415	(1,135)
Postage	675	675	800	(125)
Payments to other units				
government	375,762	375,762	392,376	(16,614)
Travel & lodging	990	990	899	91
Telephone & communications	13,550	13,550	10,230	3,320
Utilities	2,295	2,295	2,324	(29)
Insurance	1,560	1,560	1,629	(69)
Contract services	1,415	1,415	1,323	92
Forfeiture costs	1,460	1,460	2,724	(1,264)
Evidence and informants	12,980	12,980	22,288	(9,308)
Vehicle lease & costs	23,951	23,951	57,264	(33,313)
Building repair and maintenance	2,990	2,990	3,104	(114)
Officer training	1,740	1,740	1,200	540
Capital outlay	5,630	5,630	6,031	(401)
Total Expenditures	<u>479,130</u>	<u>479,130</u>	<u>536,699</u>	<u>(57,569)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	54,599	54,599	(153,779)	(208,378)
FUND BALANCE, beginning of year	<u>154,842</u>	<u>154,842</u>	<u>154,842</u>	<u>-0-</u>
FUND BALANCE, end of year	<u>\$ 209,441</u>	<u>\$ 209,441</u>	<u>\$ 1,063</u>	<u>\$ (208,378)</u>